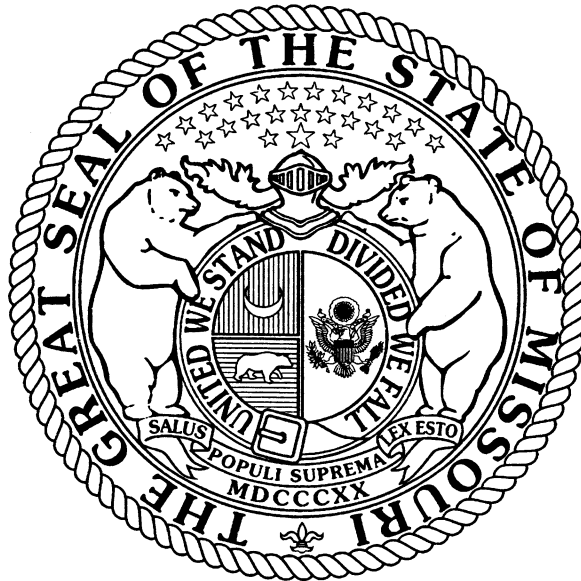


REPORT OF
FINANCIAL EXAMINATION
of
United HealthCare of the Midwest, Inc.

FILED
JAN 21 2005
DIRECTOR OF INSURANCE



AS OF
DECEMBER 31, 2003

STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

<u>Subject</u>	<u>Page</u>
<i>SCOPE OF EXAMINATION</i>	<i>1</i>
Period Covered	1
Procedures	2
Comments - Previous Examination	2
<i>HISTORY</i>	<i>4</i>
General	4
Capital Stock	5
Dividends	5
Management	6
Conflict of Interest	7
Corporate Records	7
Acquisitions, Mergers and Major Corporate Events	7
Surplus Debentures	7
<i>AFFILIATED COMPANIES</i>	<i>7</i>
Holding Company, Subsidiaries and Affiliates	7
Organizational Chart	8
Affiliated Transactions	9
Management Agreement.....	9
Chiropractic Network Services Agreement & Addendums	9
Coordinated Vision Care Services Agreement	10
Mental Health and Substance Abuse Agreement	10
Optum Services Agreement and Addendums	10
Health Pregnancy Services Agreement	11
Pharmacy Benefit Services Agreement	11
Transplant Agreement	12
Dental Benefit Providers Services Agreement.....	12
Subordinated Revolving Credit Agreement.....	13
Tax Sharing Agreement	13
Reinsurance Agreements	14
<i>FIDELITY BOND & OTHER INSURANCE</i>	<i>14</i>
<i>PENSION, STOCK OWNERSHIP AND INSURANCE PLANS</i>	<i>14</i>
<i>STATUTORY DEPOSITS</i>	<i>15</i>
Deposits with the State of Missouri	15
Deposits with Other States	15

TABLE OF CONTENTS

<u>Subject</u>	<u>Page</u>
<i>INSURANCE PRODUCTS AND RELATED PRACTICES</i>	<i>16</i>
Territory and Plan of Operation	16
Benefit Plans	17
Policy Forms & Underwriting; Advertising & Sales Materials and Treatment of Policyholders	17
<i>REINSURANCE</i>	<i>18</i>
General	18
Assumed.....	18
Ceded	18
Excess of Loss Agreement.....	18
Coinsurance Agreement.....	19
<i>ACCOUNTS AND RECORDS</i>	<i>20</i>
General	20
Independent Auditor.....	20
Independent Actuary	20
<i>FINANCIAL STATEMENTS</i>	<i>21</i>
<i>ASSETS</i>	<i>22</i>
<i>LIABILITIES, SURPLUS AND OTHER FUNDS</i>	<i>23</i>
<i>STATEMENT OF INCOME</i>	<i>24</i>
<i>CAPITAL AND SURPLUS</i>	<i>25</i>
<i>EXAMINATION CHANGES</i>	<i>26</i>
<i>NOTES TO FINANCIAL STATEMENTS</i>	<i>26</i>
<i>GENERAL COMMENTS AND/OR RECOMMENDATIONS</i>	<i>26</i>
<i>SUBSEQUENT EVENTS</i>	<i>27</i>
<i>ACKNOWLEDGMENT</i>	<i>28</i>
<i>VERIFICATION</i>	<i>28</i>
<i>SUPERVISION</i>	<i>28</i>

October 7, 2004
Maryland Heights, Missouri

Honorable Kevin M. McCarty, Commissioner
Office of Insurance Regulation
Florida Department of Financial Services
Chairman, Financial Condition (E) Committee, NAIC

Honorable Jorge Gomez, Commissioner
Office of the Commissioner of Insurance
State of Wisconsin
Secretary, Midwestern Zone, NAIC

Honorable Scott B. Lakin, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

United HealthCare of the Midwest, Inc.

hereinafter referred to as such or as "UHC-Midwest" or as the "Company." The Company's home office is located at 13655 Riverport Drive, Maryland Heights, Missouri 63043, telephone number (314) 592-7000. This examination began on July 6, 2004 and concluded on October 7, 2004.

SCOPE OF EXAMINATION

Period Covered

The last full scope association financial examination of the Company was made as of December 31, 2000, by examiners from the state of Missouri representing the Midwestern Zone

of the National Association of Insurance Commissioners (NAIC) with no other zones participating.

The current full scope association financial examination covers the period from January 1, 2001, through December 31, 2003, and was conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC with no other zones participating.

This examination also included material transactions and/or events occurring subsequent to December 31, 2003.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners, except where practices, procedures and applicable regulations of the Missouri Department of Insurance (MDI) and statutes of the state of Missouri prevailed.

The Missouri Department of Insurance engaged an independent actuary, Timothy F. Harris, FCAS, MAAA, with Milliman USA, to perform a review of the Company's reserve calculations and reserving methodologies.

Comments - Previous Examination

Listed below are the comments and recommendations taken from the prior Report of Financial Examination made as of December 31, 2000. The responses or actions taken by the Company are also described below.

1. Comment: Comments Previous Examination (Reinsurance)

The prior examination report noted that the Company violated 20 CSR 400-7.140(2) "Health Maintenance Organizations – Reinsurance Agreements" which requires HMOs to file all

reinsurance contracts with the Missouri Department of Insurance no later than 10 days after receipt. United HealthCare of the Midwest, Inc. entered into a reinsurance agreement on October 1, 2000, and notified the Missouri Department of Insurance on January 9, 2003.

Company Response:

The Company stated that they would comply in the future with such filing requirements.

Current Findings:

No exceptions were noted in this area during the current examination period.

2. *Comment: Management*

The prior examination report recommended that the Company clarify Article III, Section 2 of the Bylaws and Article Six, Section A of the Articles of Incorporation to indicate the required minimum number of directors and the prerogative of the directors to change that number.

Company Response:

The Company responded that they plan to make the necessary revisions needed to clarify this issue.

Current Findings:

The Company's Bylaws were amended in September 2001 to clarify the number of members of the board of directors.

3. *Comment: Intercompany Transactions*

It was recommended that when the Company files its holding company registration statements, it needs to include the Administrative Services Agreement or the ASO Program Service Agreement.

Company Response:

The Company stated that they would ensure that all applicable agreements are included in future holding company registration statements.

Current Findings:

The Administrative Services Agreement is no longer applicable, however, it was noted that the Company failed to properly file an agreement with Dental Benefit Providers, Inc. The agreement is described further in the “Intercompany Transactions” section of this report.

HISTORY

General

United HealthCare of the Midwest, Inc., incorporated in the state of Missouri on February 26, 1985, as Sanus Health Plan, Inc. The Missouri Department of Insurance issued a certificate of authority on July 23, 1985, for the Company to operate as a Health Maintenance Organization (HMO) under Sections 354.400 to 354.550 RSMo “Health Maintenance Organizations.” Business operations began on August 1, 1985, under the individual practice association form of health plan. On October 8, 1985, the Company became a federally qualified health maintenance organization. The Company relinquished its federally qualified status in March 1997.

On January 3, 1995, the Company became a third tier subsidiary of UnitedHealth Group Incorporated, which was called United Healthcare Corporation at that time.

On October 1, 1996, Physicians Health Plan of Greater St. Louis, Inc., a subsidiary of UnitedHealth Group Incorporated, merged into the Company with the Company being the surviving entity and changing its name to United HealthCare of the Midwest, Inc.

The immediate parent of the Company became United HealthCare Services, Inc. on April 1, 1998. United HealthCare Services, Inc. is directly owned by UnitedHealth Group Incorporated.

On October 30, 1998, UnitedHealthcare, Inc. was incorporated in Delaware as a wholly owned subsidiary of UnitedHealth Group Incorporated.

On January 1, 2000, UnitedHealth Group Incorporated contributed its share of common stock of UnitedHealthcare, Inc. to United HealthCare Services, Inc.

On June 30, 2000, United HealthCare Services, Inc. contributed its ownership interest in United HealthCare of the Midwest, Inc. along with its ownership interest in 23 other HMO subsidiaries to UnitedHealthcare, Inc.

Capital Stock

At December 31, 2000, the Company was authorized to issue 100 shares of common capital stock with a par value of \$1.00 per share. One share was issued and outstanding at December 31, 2000, for a balance of \$1.00 in the Company's capital account.

Dividends

The Company has declared and paid dividends to shareholders as follows:

	<u>Cash</u>
Prior to 2001	\$ 7,000,000
2001	9,035,581
2002	29,145,145
2003	44,500,000
2004	<u>50,000,000</u>
Total	<u>\$139,680,726</u>

Management

In accordance with the Articles of Incorporation and Bylaws, the Company's board of directors consisted of three members at December 31, 2003. Directors elected and serving as of December 31, 2003, were as follows:

<u>Name</u>	<u>Location</u>	<u>Business Affiliation</u>
Jill R. Hummel	Maryland Heights, MO	Vice President and COO of St. Louis Operations UHC-Midwest, Inc.
Robert J. Sheehy	Minnetonka, MN	Executive Vice President UHC-Midwest, Inc.
Steven C. Walli	Maryland Heights, MO	President and CEO UHC-Midwest, Inc.

The officers appointed and serving as of December 31, 2003, were as follows:

<u>Name</u>	<u>Office</u>
Steven C. Walli	Chairman, President & Chief Executive Officer
William A. Munsell	Vice President / Assistant Treasurer
Robert J. Sheehy	Executive Vice President
Richard G. Kleiner	Chief Financial Officer
Robert W. Oberrender	Treasurer
Michael J. McDonnell	Secretary
Christina R. Palme-Krizak	Assistant Secretary
David J. Lubben	Assistant Secretary
John W. Kelly	Vice President-Tax Services
Jordan H. Ginsberg, MD	Medical Director
Jill R. Hummel	Chief Operating Officer
Brian C. Murray	Vice President-Finance / Assistant Treasurer

Conflict of Interest

Conflict of interest disclosure statements are executed annually by all board members and officers. A review of the conflict of interest disclosure statements indicated no material conflicts.

Corporate Records

The Articles of Incorporation and the Bylaws were reviewed. As stated above, the Bylaws were amended in September 2001 to update the number of members on the board of directors. The Articles of Incorporation were not amended during the period under examination.

The minutes of the meetings of the shareholder and board of directors were reviewed for the period under examination. The minutes of the meetings appear to reflect proper approval of the transactions and corporate events for the period under examination. The board of directors acknowledged their review of the 2000 Missouri Department of Insurance (MDI) Report of Financial Condition in October 2001.

Acquisitions, Mergers and Major Corporate Events

None

Surplus Debentures

The Company does not have any surplus debentures issued or outstanding.

AFFILIATED COMPANIES**Holding Company, Subsidiaries and Affiliates**

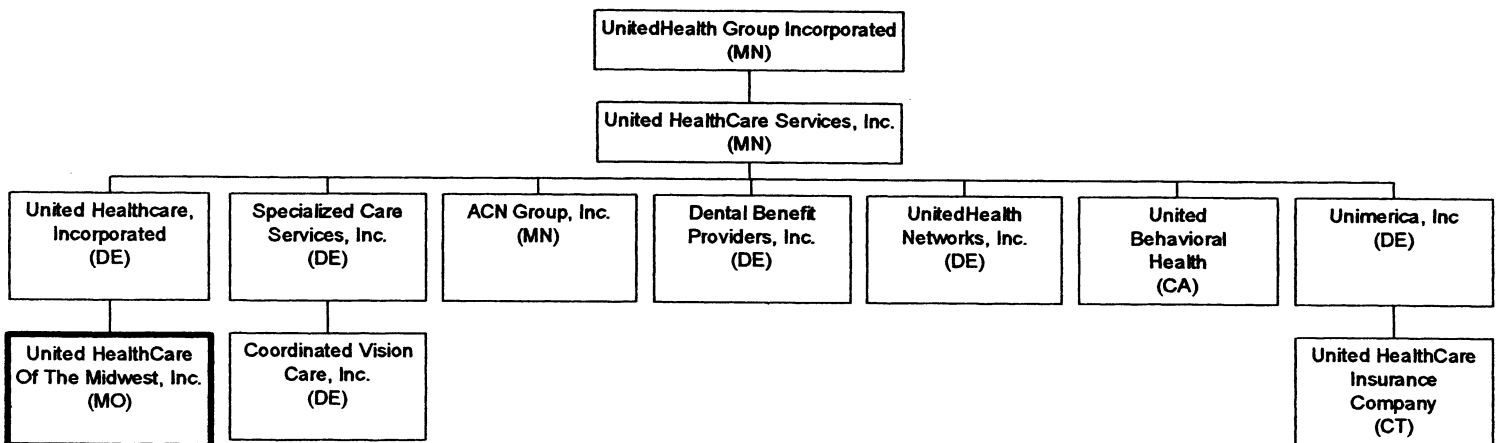
The Company is a member of an insurance holding company system as defined by Section 382.010 RSMo (Definitions). The ultimate controlling person in the insurance holding

company system is UnitedHealth Group Incorporated, which organized in 1977 under its previous name as United HealthCare Corporation. UnitedHealth Group Incorporated is a publicly held company whose common stock trades on the New York Stock Exchange under the symbol UNH.

UnitedHealth Group Incorporated is a leading national developer and marketer of managed health care delivery systems, owning and managing a network of HMOs, and offering a variety of alternative health care products and services.

Organizational Chart

The following is a portion of the entire UnitedHealth Group, Inc. organizational chart. Only those companies directly related to United HealthCare of the Midwest, Inc., or with which UHC-Midwest has direct management or reinsurance contracts are included. All companies are 100% owned by their immediate parent unless otherwise noted.



Affiliated Transactions

Management Agreement

The Company is party to a Management Agreement with its direct parent, United HealthCare Services, Inc. The terms of this agreement prescribe that United HealthCare Services, Inc. provides administrative, management, marketing, underwriting and claims processing services in return for monthly management fees equal to 12 percent of gross premium revenues. The agreement was originally effective January 1, 1995. The amended and restated management agreement effective December 31, 1999, was submitted to and not disapproved by the Missouri Department of Insurance on November 18, 1999. Fees paid to under this agreement were approximately \$170,355,000, \$164,181,000 and \$109,128,000 for the years 2001, 2002 and 2003 respectively.

Chiropractic Network Services Agreement & Addendums

UHC-Midwest is party to the Chiropractic Network Services Agreement (and attached Chiropractic Services Addendum and the Complementary & Alternative Medicine Services Addendum) with ACN Group, Inc., United HealthCare Services, Inc., and UnitedHealth Networks, Inc. Under the terms of the Agreement, ACN Group, Inc. agrees to provide the United companies with network management and administration of chiropractic and complementary and alternative medicine services as prescribed in the related addendums. The Agreement and Addendums effective on September 1, 2002 were approved by MDI on January 29, 2003.

Total fees incurred under this agreement are based on per member per month charges and were approximately \$124,000 in 2002 and \$653,000 in 2003.

Coordinated Vision Care Services Agreement

The Coordinated Vision Care Services Agreement originally effective September 21, 1999 calls for Coordinated Vision Care, Inc. to provide certain services on behalf of UHC-Midwest, including developing, contracting, and managing a vision provider network. UHC-Midwest was added to this agreement through an addendum effective January 1, 2002, that was approved by the Department on March 3, 2003.

Fees incurred under this agreement were approximately \$543,000 in 2002 and \$288,000 in 2003.

Mental Health and Substance Abuse Agreement

The Company is party to the Mental Health and Substance Abuse Agreement with United Behavioral Health Systems, Inc. United Behavioral Health Systems, Inc. provides mental health and substance abuse services to enrollees of the Company in return for a per member per month fee. The Agreement was originally effective January 1, 1999 and was “non disapproved” by the MDI on November 18, 1999. The sixth, seventh, and eighth amendments effective January 1, 2000, January 1, 2001, were submitted to and not disapproved by MDI on December 27, 2002.

Fees incurred under this agreement were approximately \$28,192,000; \$29,573,000 and \$17,941,000 for the years 2001, 2002 and 2003 respectively.

Optum Services Agreement and Addendums

The Optum Services Agreement and addendums was entered into in 2000 and replaced a similar agreement already in place and approved by MDI effective July 1, 1998. Under the agreement, Optum (a division of United HealthCare Services, Inc.) provides 24-hour telephone nurse line assistance and other services to enrollees of United HealthCare of the Midwest. Participants to the agreement and services / fees provided by Optum are described in separate

addendums to the agreement (Participating Plan Addendum, Optum Care24 Services Addendum, Health and Well Being Information Services Addendum and Nurseline Services Addendum). The agreement has been amended four times to make changes to the list of services provided by Optum, add performance standards and restructure the fee schedule.

Fees are calculated on a per member per month basis. Total fees incurred under this agreement were approximately \$5,583,000; \$4,894,000 and \$2,349,000 for the years 2001, 2002 and 2003 respectively.

Healthy Pregnancy Services Agreement

The Healthy Pregnancy Services Agreement originally effective July 1, 1999, with United HealthCare Services and UnitedHealthcare, Inc. was entered into in order to provide Healthy Pregnancy Services by registered nurses by telephone. Total fees incurred under this agreement were approximately \$79,500; \$18,000 and \$11,000 for the years 2001, 2002 and 2003 respectively.

Pharmacy Benefit Services Agreement

The Company is party to the Pharmacy Benefit Services Agreement with United HealthCare Services, Inc. and UnitedHealth Networks, Inc. United HealthCare Services, Inc. and UnitedHealth Networks, Inc. agree to provide or arrange for the provision of pharmacy benefit services to enrollees of UHC-Midwest. The services provided include claims processing, eligibility management, benefits management, customer services and support. United HealthCare Services, Inc. contracts with Merck-Medco Managed Care, L.L.C. for the provision of these services. The agreement effective October 1, 2000 was approved by the Department on October 3, 2000.

Fees incurred in connection with this agreement were \$1,553,000; \$977,000 and \$802,000 for the years 2001, 2002 and 2003 respectively.

Transplant Agreement

The Company is party to a Transplant Agreement with United Resource Networks, a division of United HealthCare Services, Inc. Pursuant to the terms of the agreement, United Resource Networks agrees to provide for transplant services on behalf of enrollees of UHC-Midwest. Fees are calculated on a per member per month basis. The Agreement became effective January 1, 1999 was approved by MDI on November 18, 1999. Amendments were made dated January 1, 1999, 2000 and 2001, however, these agreements were not filed with MDI prior to their execution. The amendments were filed with the MDI in July 2002. A letter was issued effective January 1, 2003, stating that MDI did not disapprove of the amendments.

Fees incurred under this agreement were approximately \$426,000; \$642,000 and \$338,000 for the years 2001, 2002 and 2003 respectively.

Dental Benefit Providers Services Agreement

The Company recently filed a Form D Holding Company Registration Statement describing the Dental Benefit Providers Services Agreement with affiliate Dental Benefit Providers, Inc. (DBP). The terms of this agreement prescribe that DBP is responsible for developing, contracting, and managing a network of providers to provide dental health care services for UHC-Midwest's commercial individual product (no longer currently being written) and Medicare enrollees.

United HealthCare of the Midwest, Inc. paid approximately \$310,000 and \$400,000 (net of reinsurance) in 2002 and 2003 for services provided. No formal cost sharing or services agreement existed between the companies defining the terms of this arrangement until August 18, 2004, when the Company filed a Form D with MDI (approval pending). UHC-Midwest violated Section 382.195 RSMo (Prohibited transactions, exceptions) by entering this service arrangement without notifying MDI. The Company is directed to ensure that all future arrangements with affiliates meeting the provisions of Section 382.192 RSMo be appropriately filed with MDI at least thirty days prior to entering such transactions.

Subordinated Revolving Credit Agreement

Beginning December 1, 1999, the Company entered into a \$20,000,000 subordinated revolving credit agreement with UnitedHealth Group Incorporated at an interest rate of LIBOR plus a margin of 0.50%. The credit agreement is for a one-year term and automatically renews annually, unless terminated by either party. The agreement was renewed effective December 1, 2003. No amounts were outstanding under the line of credit as of December 31, 2001, 2002 or 2003.

Tax Sharing Agreement

The Company is party to a Tax Sharing Agreement with United HealthCare Corporation and other affiliates. The Agreement was effective on January 3, 1995, and stipulates that UHC-Midwest would be a party to the consolidated tax return filed by United HealthCare Corporation. The Agreement also provides for the allocation and payment of federal, state, and local income tax liabilities.

Reinsurance Agreements

UHC-Midwest was party to an excess of loss agreement with United HealthCare Insurance Company from October 1, 2000, to June 30, 2003. Effective July 1, 2003, the companies entered a 60% coinsurance agreement to replace the excess of loss agreement. These agreements are described further in the “Reinsurance” section of this report.

FIDELITY BOND & OTHER INSURANCE

United HealthCare of the Midwest, Inc. is a named insured on a \$25,000,000 crime and fidelity policy issued to United HealthCare Corporation. The fidelity bond meets the suggested minimum coverage of the NAIC and the requirements of Section 354.425 RSMo “Surety bond requirements.” The deductible of \$500,000 appears commensurate with the Company's financial position.

The Company is also a named insured on policies taken out by United HealthCare Corporation for the following types of coverage: directors and officers liability, professional liability, commercial auto liability, commercial general liability, excess umbrella liability, commercial property, and workers’ compensation and employer’s liability.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no employees. All personnel are employed by United HealthCare Services, Inc., an upstream company in the holding company system of which the Company is a part. United HealthCare Services, Inc. provides a wide range of benefits including paid vacation, sick leave, paid holidays, educational reimbursement, life insurance and accidental death coverage, medical and dental coverage, short-term and long-term disability.

Eligible employees are also offered savings incentive plans through a 401(k) plan and an Employee Stock Purchase Plan. United HealthCare Services, Inc. does not offer a pension plan or post-employment benefits plan to its employees.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of December 31, 2003, as reflected below, were sufficient in par and market value to meet the deposit requirement for the state of Missouri in accordance with Section 354.410 RSMo "Trust deposits."

<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
US Treasury Note	<u>\$300,000</u>	<u>\$301,782</u>	<u>\$300,842</u>
TOTALS	<u>\$300,000</u>	<u>\$301,782</u>	<u>\$300,842</u>

Deposits with Other States

The Company is also licensed in the states of Illinois and Kansas. Funds on deposit with the state of Illinois as of December 31, 2003 were as follows.

<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
US Treasury Note	<u>\$300,000</u>	<u>\$301,782</u>	<u>\$300,842</u>
TOTALS	<u>\$300,000</u>	<u>\$301,782</u>	<u>\$300,842</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

United HealthCare of the Midwest, Inc. is organized as a health maintenance organization in accordance with Sections 354.400 to 354.550 RSMo. United HealthCare of the Midwest, Inc., a for-profit HMO, offers its enrollees a variety of managed care programs and products through contractual arrangements with health care providers. The Company has entered into contracts with physicians, hospitals and other health care providers pursuant to which such providers deliver medical care to its enrollees primarily on a modified fee-for-service or capitated basis. The Company is licensed to operate in various counties in the states of Missouri, Illinois and Kansas.

The Company is organized into two geographic markets – Missouri market and Kansas market. The Missouri market covers the St. Louis metropolitan area, central Missouri, Springfield, and several rural Missouri counties. The Kansas market covers the Kansas City metropolitan area and Topeka, Wichita and St. Joseph areas. The markets are further segmented by lines of business that serve the following market segments:

Commercial:

- Small Business – serving employer groups with 50 and fewer eligible employees
- Key Accounts – serving employer groups with 51 to 1,000 eligible employees
- Major Accounts – serving employer groups with 1,001 to 5,000 eligible employees and single-site cases with more than 5,000 eligible employees that are not in the Public Sector (see below)
- Public Sector – serving employer groups with 1,001 to 5,000 eligible employees and single-site cases with more than 5,000 eligible employees that are defined as Public Sector business

Benefit Plans

Each of the market segments described above offer an array of benefit plans under the following products:

- Select – a gatekeeper, in-network HMO product
- Select Plus – a gatekeeper product offering in-network and out-of-network benefits (out-of-network benefits are covered under a policy with UnitedHealthcare Insurance Company)
- Choice – an open access, in-network HMO product
- Choice Plus – an open access product offering in-network and out-of-network benefits (out-of-network benefits provided through UnitedHealthcare Insurance Company)
- Ovations – Medicare HMO product (not offered in Kansas market)

Policy Forms & Underwriting; Advertising & Sales Materials and Treatment of Policyholders

The Missouri Department of Insurance has a Market Conduct staff that performs a review of these issues and generates a separate Market Conduct report. The most recent finalized Missouri Market Conduct examination report covered the period of January 1, 1999, through December 31, 1999, and was completed on October 4, 2000. A supplemental examination of the Company's claim handling activities was conducted in 2002, with the findings documented in report "0012-04-HMO" dated December 13, 2002. Both the 1999 and 2002 examination reports disclosed several non-compliance issues subject to penalty and re-adjudication. The Company has accrued liabilities in its financial statement to cover both the re-adjudication of claims and the potential penalties. The Missouri Department of Insurance Market Conduct staff is currently conducting an additional supplemental examination to update the 2002 findings.

REINSURANCE

General

Premiums reported during the period under examination were as follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Direct Business	\$ 1,419,669,906	\$ 1,368,956,496	\$ 1,065,217,575
Reinsurance Assumed	-	-	-
Reinsurance Ceded	<u>1,199,891</u>	<u>1,007,553</u>	<u>238,474,069</u>
Net Premiums Earned	<u>\$ 1,418,470,015</u>	<u>\$ 1,367,948,943</u>	<u>\$ 826,743,506</u>

Assumed

The Company did not assume any reinsurance during the period under examination.

Ceded

Excess of Loss Agreement

Effective December 1, 2000, through June 30, 2003, the Company was party to an excess of loss agreement with affiliate United HealthCare Insurance Company, a Connecticut domestic insurer. This agreement, was filed with and not disapproved by the Missouri Department of Insurance on January 9, 2001. The Company's retention limits were \$350,000 for commercial members and \$200,000 for Medicare members. The reinsurer's liability excess of retention was \$2,000,000 per member per year.

Coinsurance Agreement

Effective July 1, 2003, the Company entered a Reinsurance Agreement with United HealthCare Insurance Company superceding all prior reinsurance agreements between the two parties. This agreement was originally filed with the Missouri Department of Insurance on August 25, 2003. MDI issued a letter stating there was no intention of disapproving the transaction on September 22, 2003. The terms of the Reinsurance Agreement prescribe the cession of 60% coinsurance of any benefit costs, provider incentive payments and other expenses incurred after June 30, 2003. In addition, the Reinsurance Agreement provides coverage for the actual run-out of claims that exceed the estimated claims run-out, subsequent to the end of each reinsurance contract year.

It was noted that transactions related to the Company's coinsurance agreement with United HealthCare Insurance Company are settled through intercompany transfers, which flow through the United Group's "treasury department" with United HealthCare Services, Inc. The coinsurance agreement with United HealthCare Insurance Company does not contain an intermediary clause allowing for settlements through a third party. It is recommended that either the settlements be made directly with the reinsurer or that the coinsurance agreement be amended to include a valid intermediary clause.

ACCOUNTS AND RECORDS

General

The Company maintains its general ledger on PeopleSoft software. "COSMOS," Peoplesoft and Prime/Exba system software are used to track premium and billing information. Account receivable information is maintained on the Accounts Receivable Manager (ARM) System. Enrollment information is maintained on the "COSMOS," Prime/Exba and ACIS systems.

Independent Auditor

The Company's financial statements were audited by the CPA firm Deloitte & Touche LLP as part of the United HealthGroup Incorporated's company-wide audit for the years ending 2002 and 2003. Workpapers from the 2003 audit were reviewed and included in this examination to the extent deemed appropriate. Previous to 2002, Arthur Anderson LLP performed the Company's statutory audits.

Independent Actuary

Claims related reserves and other actuarial items are reviewed and certified by Thomas Burton, Senior Vice President and Chief Actuary of United HealthCare Insurance Company, an affiliate of United HealthCare of the Midwest, Inc. Consulting actuary, Timothy F. Harris, FCAS, MAAA, with Milliman USA, was retained by the Missouri Department of Insurance to review the adequacy of reserves and other related liabilities.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2003, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the annual statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. The failure of any column to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

ASSETS

	<u>Ledger & Non- Ledger Assets</u>	<u>Assets Non-Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 210,216,900		\$ 210,216,900
Cash and short-term investments	48,614,353		48,614,353
Receivable for securities	20,992		20,992
Investment income due and accrued	3,217,258		3,217,258
Premiums in course of collection	10,194,289	197,094	9,997,195
Amounts recoverable from reinsurer	24,999,259		24,999,259
Other reinsurance amounts receivable	2,725,054		2,725,054
Net deferred tax asset	4,685,036		4,685,036
Receivable from affiliates	976,341		976,341
Health care receivable	<u>1,583,178</u>	<u>1,484,804</u>	<u>98,374</u>
Total Assets	<u>\$ 307,232,660</u>	<u>\$ 1,681,898</u>	<u>\$ 305,550,762</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

	<u>Current Year</u>
Claims Unpaid	\$ 74,380,097
Accrued medical incentive pool and bonus amounts	12,856,077
Aggregate health policy reserves	559,184
Aggregate health claim reserves	2,426,009
Premium received in advance	34,478,532
General expenses due or accrued	5,555,960
Current federal and foreign income tax payable	2,166,306
Ceded reinsurance premiums payable	29,533,208
Remittances and items not allocated	1,651,279
State income taxes	3,868,445
Premium taxes payable	653,625
State assessments	1,627,227
Other liabilities	<u>68,144</u>
Total Liabilities	<u>\$ 169,824,093</u>
Common capital stock	\$ 1
Gross paid in and contributed surplus	76,488,535
Unassigned funds (surplus)	<u>59,238,133</u>
Surplus as regards policyholders	<u>\$ 135,726,669</u>
Total Liabilities and Surplus	<u>\$ 305,550,762</u>

STATEMENT OF INCOME

	<u>Current Year</u>
Net premium income	\$ 826,743,506
Change in unearned premium reserves	\$ (5,753)
Prior year balance of premiums received in advance	<u>39,804,852</u>
Total Revenues	\$ 866,542,605
 Hospital/medical benefits	 \$ 747,282,158
Other professional services	693,724
Prescription drugs	86,040,808
Other medical costs	2,354,443
Incentive pool, withhold adjustments and bonus amounts	<u>31,501,895</u>
Subtotal Hospital and Medical Benefits	\$ 867,873,028
Net reinsurance recoveries	(187,598,195)
Claim adjustment expenses	28,821,973
General administrative expenses	109,241,992
Increase in life and accident and health reserves	<u>215,051</u>
Total Underwriting Deductions	\$ 818,553,849
 Net Underwriting Gain or (loss)	 \$ 47,988,756
 Net investment income earned	 \$ 13,307,976
Net realized capital gains or (losses)	<u>3,780,670</u>
Net Investment Gains or (Losses)	\$ 17,088,646
 Miscellaneous Other Income (Expense)	 \$ 9,356
 Net Income or (Loss) Before Federal Income Taxes	 \$ 65,086,758
 Federal and foreign income taxes incurred	 <u>18,418,830</u>
 Net Income (Loss)	 <u>\$ 46,667,928</u>

CAPITAL AND SURPLUS

	<u>Current Year</u>
Surplus as regards policyholders, December 31, 2002	\$ 133,560,444
Net income or (loss)	46,667,928
Change in net deferred income tax	(1,881,554)
Change in nonadmitted assets	1,879,851
Dividends to stockholders	(44,500,000)
Examination changes	0
Change in surplus as regards policyholders	<u>\$ 2,166,225</u>
Surplus as regards policyholders, December 31, 2003	<u>\$ 135,726,669</u>

EXAMINATION CHANGES

None

NOTES TO FINANCIAL STATEMENTS

None

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Transactions with Affiliates – DBP Agreement

Page 12

United HealthCare of the Midwest, Inc. paid approximately \$310,000 and \$400,000 (net of reinsurance) in 2002 and 2003 for services provided under an arrangement with its affiliate Dental Benefit Providers, Inc. No formal cost sharing or services agreement existed between the companies defining the terms of this arrangement until August 18, 2004, when the Company filed a Form D with the Missouri Department of Insurance (approval pending). UHC-Midwest violated Section 382.195 RSMo (Prohibited transactions, exceptions) by entering this service arrangement without notifying the Missouri Department of Insurance. The Company is directed to ensure that all future arrangements with affiliates meeting the provisions of Section 382.192 RSMo be appropriately filed with MDI at least thirty days prior to entering such transactions.

It was noted that transactions related to the Company's coinsurance agreement with United HealthCare Insurance Company are settled through intercompany transfers, which flow through the United Group's "treasury department" with United HealthCare Services, Inc. The coinsurance agreement with United HealthCare Insurance Company does not contain an intermediary clause allowing for settlements through a third party. It is recommended that either the settlements be made directly with the reinsurer or that the coinsurance agreement be amended to include a valid intermediary clause.

SUBSEQUENT EVENTS

The Company paid a dividend of \$50,000,000 (\$36,692,024 of which was considered an extraordinary dividend) on June 15, 2004. The Missouri Department of Insurance approved the payment of the extraordinary dividend on June 7, 2004.


ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of United HealthCare of the Midwest, Inc. during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Robert P. Jordan, CFE, and John Boczkiewicz, CPA, CFE, examiners representing the Missouri Department of Insurance, participated in this examination. MDI also engaged an independent actuary, Milliman USA, to perform a review of the Company's reserve calculations and reserving methodology.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Michael R. Shadowens, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.


Michael R. Shadowens, CFE
Examiner-in-Charge
Missouri Department of Insurance

Sworn to and subscribed before me this 16th day of Nov, 2004.

My commission expires:


Oct. 7, 2005

Rayna S. Rice
Notary Public

RAYNA S. RICE
Notary Public - State of Missouri
County of Cole
My Commission Expires Oct. 7, 2005

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with the National Association of Insurance Commissioners procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.


J. Douglas Conley, CFE, FLMI, CIE, AIAF, ARc
Audit Manager, St. Louis
Missouri Department of Insurance
Midwestern Zone, National Assoc. of Ins. Commissioners